

ARIZONA CORPORATION COMMISSION MEETING MINUTES

DATE: October 26, 2004

TIME: 9:30 a.m.

PLACE: Arizona Corporation Commission, 1200 W. Washington Street, Room 100, Phoenix, Arizona 85007

ATTENDANCE: No Quorum of Commissioners. See list in Attachment 1.

TOPIC: DEMAND-SIDE MANAGEMENT WORKSHOP

MATTERS DISCUSSED:

Barbara Keene of the Commission Staff welcomed everyone. Each participant made a self-introduction. Ms. Keene distributed a draft policy document prepared by Tom Hines (APS) for the purpose of addressing demand response in the DSM policy. For each section of the policy, the group discussed whether a separate statement was required to cover demand response. The group agreed on additions for the following sections:

Program Goals

One sentence was added to address goals with respect to reduction in peak demand.

Cost Recovery

The group agreed to add one sentence to deal with allocation of equipment and expenses that may be used for both DSM and other purposes.

Baseline Estimation

Demand response programs require a baseline estimation of consumption patterns in addition to overall consumption. Therefore, a separate sentence has been included to reflect the difference in baseline information requirements for demand response programs.

Throughout the discussion of the draft policy, questions regarding the administration of DSM programs and funding arose. For example, what is the process by which an independent lighting contractor can get involved with DSM programs and receive DSM program funds? This led to a discussion of the different options for DSM program administration. Jeff Schlegel of SWEEP drew a helpful diagram of the different options ranging from utility administered and delivered DSM programs to independent administration and delivery of DSM programs. The group has not yet engaged in a lengthy discussion of its preference among this array of options. Regardless of the administrative process, any independent contractors that wish to participate in DSM programs must do so through the DSM program administrator for each utility company.

After going through the draft policy to specifically address demand response, the group turned back to the policy to address several sections.

DSM Definition

Mr. Schlegel distributed handout that included a proposed definition along with a definition from the U.S. Energy Information Administration. The group discussed the broad definition of DSM along with the need for separate statements about energy efficiency and demand response. One sentence and a footnote were added to clarify the definition of energy efficiency without using the words “energy efficiency.” A definition of “load management” is needed. This is a homework assignment for participants.

DSM Accounting Principles

The following was added to this section: “Utilities will allocate costs with Generally Accepted Accounting Principles (GAAP). All items shall be direct charged where possible.”

Reporting Requirements

The group discussed the need for standard and consistent reporting requirements. One sentence was added to state that Staff shall develop standard tables, outlines, and guidelines for reporting purposes. This sentence was also added to the *Planning* section.

Applications Eligible for Funding

The group engaged in a discussion about the relationship between demand side management and the potential categories of programs including energy efficiency, load management, combined heat and power (CHP), distributed generation (DG), and renewable distributed generation. As there are many aspects to combined heat and power and distributed generation, the discussion focused on the differences between CHP or DG used for base load purposes, CHP or DG used to help offset peak period demand, and DG using renewable energy. Not all applications of CHP and DG will be considered eligible DSM programs. The application must meet the same criteria as any other DSM program. Brian O'Donnell will propose language that addresses the applications of CHP and DG that will be considered in the overall DSM portfolio. There was also some discussion about the treatment of renewable DG and appliances. The group discussed the possibility of including some of the energy savings gained from renewable applications in the DSM savings goals even if the funds came from other sources such as the Environmental Portfolio Standard fund. Finally, Mr. Schlegel agreed to propose a definition and criteria for DSM program status for load management. As a homework assignment, participants were invited to prepare a list of items eligible for funding.

Parity and Equity

Continuing the discussion of self-direction from the September DSM workshop, the group discussed whether it is appropriate to include a section about self-direction in the DSM policy. One option is to address it very generally in the policy and deal with it more specifically in each individual rate case. There are many details to work out with respect to self-direction, and a one-size-fits-all policy statement seems inappropriate. This issue requires more discussion and study,

but will certainly be taken up in the Staff report. Participants are invited to provide a list of issues related to self-direction for inclusion in the Staff report.

Another complicated matter is exemption or opt-out for large customers. Mike McElrath of Phelps Dodge Corporation had proposed language for the September workshop about which the group had several questions such as what types of customers would be eligible, what is the definition of an “active DSM program,” and how would an exemption affect the utilities’ portfolio goals, performance expectations, and accounting. As with the self-direction issue, there are many outstanding questions that require more discussion, but it is clear from several discussions and an informal poll during the course of recent workshops that the participants will not come to any sort of agreement as to whether or not the topic should be addressed in the DSM policy. At a minimum, the issue will receive attention in the Staff report.

Finally, the group considered several equity issues with respect to low-income programs. As it stands, the draft policy does not specifically address how funding for low-income programs will be derived, only that funding shall be borne by all customer classes. Several utility representatives also questioned whether low-income programs would be subject to the same cost benefit standards as all other programs. They indicated a preference that the test be relaxed because they are not confident that even current low-income programs would pass a rigorous cost-benefit test. No language was changed in this section of the policy, but these issues may require more attention in the Staff report.

Cost Effectiveness

The aforementioned discussion of low-income programs segued into a brief discussion about the cost effectiveness of pilot programs and research and development. The group agreed to add two new sentences to this section indicating that measures included in low-income programs should generally be cost effective but that pilot programs and research and development expenditures need not pass the same cost effectiveness requirement as other programs.

Fuel Neutrality

The group again took up the matter of fuel neutrality and the use of source energy analysis in program evaluation. Southwest Gas is very much in favor of using source energy analysis whereas Arizona Public Service and Tucson Electric do not find it to be an appropriate methodology. It is clear that the group will not come to an agreement regarding source energy analysis and it is another matter to be addressed in the Staff report. The group did agree to add the phrase, “source energy may be used as part of the analysis, in addition to a site energy analysis.” There were a few revisions to the section to clarify that electric and gas utility program funds should be used for electric and gas measures, respectively.

The next DSM Workshop will be held on November 22, 2004, from 9:30 a.m. to 4:00 p.m.

Erin Casper
Utilities Division

Attendees at the DSM Workshop
October 26, 2004

Name	Organization
David Berry	Western Resource Advocates
Bruce Bilbrey	Natural Lighting
Jana Brandt	Salt River Project
Marv Buck	Buck-Taylor Consulting
Erin Casper	Arizona Corporation Commission Staff
Rebecca Chavez	Tucson Electric Power / UNS Electric & Gas
Tim Coley	Residential Utility Consumer Office
Linda Douglas	Tucson Electric Power
John Duncan	Arizona Public Service
Lori Glover	So Cool Energy
Andrea Gonzalez	Office of Robert S. Lynch
Tom Hines	Arizona Public Service
Grant Holmes	ANL Distributors/Volttech, Inc.
Marshall Hunt	RHA
Eileen Jacobson	UNS Electric
Barbara Keene	Arizona Corporation Commission Staff
Steve Koepp	AHS
A.K. Krainik	Arizona Public Service
Mike McElrath	Phelps Dodge
Gary Mirich	Energy Strategies
Brian O'Donnell	Southwest Gas
Terry Orlick	Arizona Public Service
Amanda Ormond	Ormond Group
Greg Patterson	AzCPA
David Pickles	ICF Consulting
Jesus M. Reza	Morenci Water & Electric
Russ Romney	Martinez & Curtis
Jeff Schlegel	Southwest Energy Efficiency Project
Vivian Scott	Southwest Gas
Chuck Skidmore	City of Scottsdale
Ray Williamson	Arizona Corporation Commission Staff
Martha Wright	Southwest Gas